

Research Markets Today

20 November 2023

Events Round-Up

NZ: PPI output (q/q%), Q3: 0.8 vs. 0.2 prev.

UK: Retail sales ex auto fuel (m/m%), Oct: -0.1 vs. 0.5 exp.

US: Building permits (k), Oct: 1487 vs 1450 exp.

US: Housing starts (k), Oct: 1372 vs. 1350 exp.

Good Morning

US equities made modest gains on Friday in the absence of first-tier economic data or other market drivers. The S&P ended up 0.1%, and consolidated above 4,500, having advanced close to 2% during the week. US investment grade credit spreads were little changed, and are close to the tightest levels for 2023, after the recent strong performance in risk sensitive assets. The US dollar was weak across the board and 10-year US treasuries were stable.

News that Saudi Arabia is preparing to extend production cuts into next year, alongside potential supply cuts by other OPEC+ members, contributed to a recovery in oil prices. Saudi Arabia and Russia had already agreed to keep output cuts in place till the end of the year. Brent crude had fallen to 4-months lows below US\$77 per barrel in part due to stronger than expected non-OPEC production alongside concerns about slowing global growth.

The pace of new home construction in the US unexpectedly increased in October. Residential housing starts increased at a 1.37 million annualised rate. While high interest rates are impacting demand, the limited listings of existing houses is providing support for new construction. Building permits rose 1.1% to 1,487K.

UK retail sales dropped unexpectedly in October. Sales excluding fuel slipped 0.1% m/m against expectations for a 0.5% rise. This is a further indication that the 14 consecutive rate hikes, which pushed the base rate up to 5.25%, is placing pressure on households. There are an estimated 1.6 million mortgages to be refinanced at significantly higher rates next year according to Bloomberg calculations. Market pricing implies that the Bank of England tightening cycle is complete and the bank will begin to ease policy from the middle of 2024.

An initial move lower in US treasury yields reversed with the stronger than expected housing construction data

providing a boost to front end yields. 2-year treasuries reached a low of 4.8% before ending 5bps higher at 4.89%. The curve flattened with the 10-year bonds unchanged on the day at 4.43% despite a temporary dip below 4.4%. There will be a US\$15 billion auction of a new 20-year treasury tomorrow morning (NZT).

Gilts outperform in European bond markets following the weaker than expected retail sales report. 10-year gilts closed down 5bps at 4.09% while 10-year bunds were unchanged at 2.59%.

The US dollar was weaker against all G10 currencies on Friday with the dollar index (DXY) falling 0.5%. The improved risk tone amid falling global bond yields, and an increasing amount of Fed rate cuts being priced by the market for 2024, have weighed on the dollar. The DXY has retraced almost 3% from the late October highs. The Japanese yen outperformed amongst the majors with USD/JPY trading back below 150. The latest CFTC data revealed speculative accounts have increased Yen short positioning to the highest level since April 2022.

NZD/USD gained 0.5% against the dollar and closed on the session highs near 0.5990 having dipped towards 0.5940 in early European trade. NZD/AUD slipped below 0.9200.

NZ yields extended lower in the local session on Friday reflecting the directional moves in global markets. 10-year government bonds yields fell 11bps to 4.87% and were down 14bps at one point during the day. There was a further steepening at the long end of the curve with 10y/30y spread increasing to 22bps. This represents a sharp rebound off the recent lows near 8bps. The steepening move extended higher on Friday despite New Zealand Debt Management announcing reduced amount of supply into the ultras in the weekly tender on Thursday.

Australian bond futures are close to unchanged from the local close on Friday, suggesting limited directional bias for NZGBs on the open.

There is no economic data of note.

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Indicative overnight ranges (*)					Other FX		Equities				Commodities**			
	Last	% Day	Low	High		Last	% Day	Major Indices			Price			
								Last	% Day	% Year		Last	Net Day	
NZD	0.5991	+0.3	0.5941	0.5997	CHF	0.8857	-0.3	S&P 500	4,514	+0.1	14.4	Oil (Brent)	80.61	+4.1
AUD	0.6515	+0.7	0.6453	0.6514	SEK	10.519	-0.7	Dow	34,947	+0.0	4.2	Oil (WTI)	75.89	+4.1
EUR	1.0913	+0.6	1.0825	1.0905	NOK	10.808	-1.2	Nasdaq	14,125	+0.1	26.7	Gold	1984.7	-0.1
GBP	1.2463	+0.4	1.2374	1.2458	HKD	7.796	-0.1	Stoxx 50	4,341	+0.9	10.6	HRC steel	890.0	+0.0
JPY	149.63	-0.7	149.20	150.70	CNY	7.214	-0.4	FTSE	7,504	+1.3	1.6	CRB	273.6	+0.9
CAD	1.3720	-0.2			SGD	1.344	-0.3	DAX	15,919	+0.8	10.3	Wheat Chic.	575.8	-0.9
NZD/AUD	0.9196	-0.3			IDR	15,493	-0.4	CAC 40	7,234	+0.9	8.9	Sugar	27.18	-0.0
NZD/EUR	0.5490	-0.2			THB	35.11	-0.3	Nikkei	33,585	+0.5	20.4	Cotton	78.92	+0.3
NZD/GBP	0.4807	-0.1			KRW	1,297	-0.0	Shanghai	3,054	+0.1	-1.4	Coffee	166.7	-2.7
NZD/JPY	89.64	-0.5			TWD	31.81	-0.3	ASX 200	7,049	-0.1	-1.4	WM powder	3075	-1.1
NZD/CAD	0.8220	+0.1			PHP	55.67	-0.2	NZX 50	11,177	-0.5	-1.8	Australian Futures		
NZ TWI	70.03	-0.1										3 year bond	95.91	0.09
												10 year bond	95.52	0.02
Interest Rates														
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last	Last			
USD	5.50	5.63	4.71	4.09	USD	4.44	-0.00	15-Apr-25	5.13	-0.05	1 year	5.53	-0.02	
AUD	4.35	4.38	4.37	4.78	AUD	4.47	-0.09	15-Apr-27	4.73	-0.09	2 year	5.08	-0.08	
NZD	5.50	5.63	5.08	4.77	NZD	4.88	-0.10	15-May-28	4.71	-0.10	5 year	4.66	-0.11	
EUR	4.00	4.00	3.48	3.08	GER	2.59	-0.00	15-May-31	4.82	-0.10	7 year	4.68	-0.10	
GBP	5.25	5.35	4.71	3.93	GBP	4.10	-0.05	14-Apr-33	4.88	-0.10	10 year	4.77	-0.10	
JPY	-0.02	-0.03	0.22	0.92	JPY	0.76	-0.04	15-May-41	5.14	-0.07	15 year	4.87	-0.10	
CAD	5.00	5.50	4.82	4.04	CAD	3.68	0.00	15-May-51	5.10	-0.05				

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

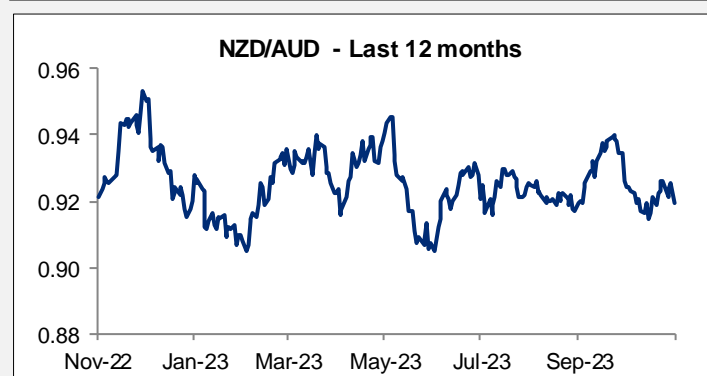
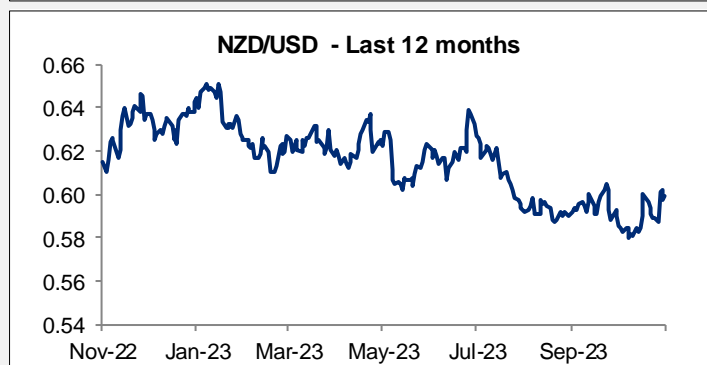
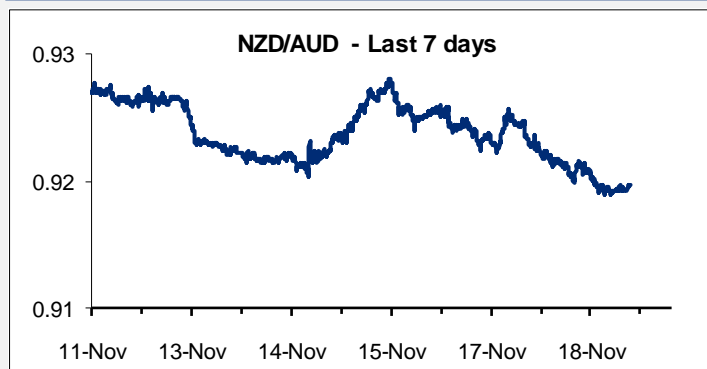
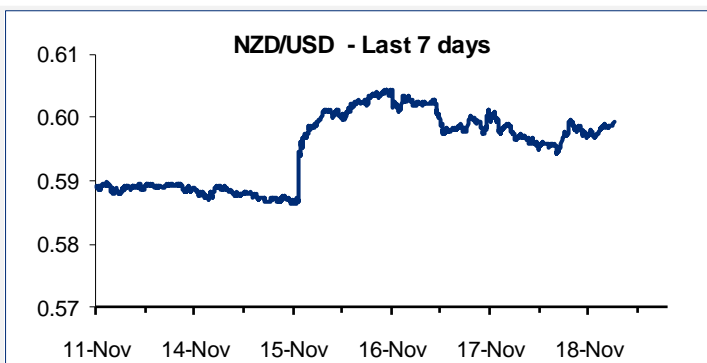
** All near futures contracts, except CRB. Metals prices are CME.

Rates at NY close

Source: Bloomberg

NZD exchange rates

18/11/2023	NY close	Prev. NY close
USD	0.5991	0.5971
GBP	0.4807	0.4810
AUD	0.9196	0.9229
EUR	0.5490	0.5502
JPY	89.64	90.00
CAD	0.8220	0.8213
CHF	0.5306	0.5306
DKK	4.0944	4.1033
FJD	1.3713	1.3645
HKD	4.6708	4.6582
INR	49.89	49.70
NOK	6.4749	6.5296
PKR	171.79	171.59
PHP	33.35	33.30
PGK	2.2321	2.2238
SEK	6.3021	6.3241
SGD	0.8049	0.8043
CNY	4.3221	4.3246
THB	21.03	21.18
TOP	1.4047	1.4096
VUV	72.67	72.34
WST	1.6450	1.6386
XPF	66.32	66.21
ZAR	10.9989	10.9706



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.23	0.56
3 Months	1.17	2.17
6 Months	0.67	3.67
9 Months	0.51	3.17
1 Year	-0.44	2.45

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.82	-7.02
3 Months	-23.54	-21.51
6 Months	-45.02	-39.03
9 Months	-59.77	-52.89
1 Year	-69.21	-61.94

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